

WORK ACTIVITY CENTER

**Combined Financial Statements and
Independent Auditors' Report
Year Ended June 30, 2005 and 2004**

WORK ACTIVITY CENTER

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Work Activity Center
West Valley City, Utah

We have audited the accompanying combined statement of financial position of Work Activity Center (a not-for-profit organization) as of June 30, 2005 and 2004, and the related combined statements of activities, combined statements of functional expenses, and combined cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Work Activity Center at June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of Work Activity Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Karren, Hendrix, Stagg, Allen & Company
September 1, 2005

CERTIFIED PUBLIC ACCOUNTANTS

WORK ACTIVITY CENTER

Combined Statements of Financial Position June 30, 2005 and 2004

	2005	2004
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 702,859	\$ 723,274
Cash, temporarily restricted	884	1,919
Accounts receivable	306,339	274,889
Inventory	28,344	16,773
Prepaid expenses	56,906	48,504
Total current assets	<u>1,095,332</u>	<u>1,065,359</u>
PROPERTY AND EQUIPMENT, NET	<u>1,429,519</u>	<u>1,455,195</u>
OTHER ASSETS		
Intangible assets, net amortization (\$15,000)	30,000	-
Investments	18,903	14,907
Deposits	5,040	5,040
Total other assets	<u>53,943</u>	<u>19,947</u>
Total assets	<u><u>\$ 2,578,794</u></u>	<u><u>\$ 2,540,501</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 39,562	\$ 25,856
Accrued payroll and related taxes	86,844	70,831
Accrued annual leave	61,257	52,847
Current installments on notes payable	47,294	43,842
Total current liabilities	<u>234,957</u>	<u>193,376</u>
LONG TERM DEBT		
Notes payable, excluding current installments	<u>694,805</u>	<u>741,991</u>
Total liabilities	<u>929,762</u>	<u>935,367</u>
NET ASSETS		
Unrestricted	1,648,148	1,603,215
Temporarily restricted	884	1,919
Total net assets	<u>1,649,032</u>	<u>1,605,134</u>
Total liabilities and net assets	<u><u>\$ 2,578,794</u></u>	<u><u>\$ 2,540,501</u></u>

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Combined Statements of Activities For the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	2005 Total
REVENUE AND SUPPORT			
Grants	\$ -	\$ 7,914	\$ 7,914
Contributions	10,776	-	10,776
Day training, state contracts	1,609,487	-	1,609,487
Day training, other	41,288	-	41,288
Transportation	265,927	-	265,927
Residential, state contracts	1,005,218	-	1,005,218
Residential, other	168,427	-	168,427
Supported employment, state contracts	169,865	-	169,865
Work activity projects	69,485	-	69,485
Investment income	13,805	-	13,805
Other income	64,519	-	64,519
Intensive employments services	7,600	-	7,600
School district services	1,666	-	1,666
SJBT, State of Utah	128,478	-	128,478
Interpreting services	3,236	-	3,236
Assets released from restrictions	8,949	(8,949)	-
Total revenue and support	<u>3,568,726</u>	<u>(1,035)</u>	<u>3,567,691</u>
EXPENSES			
Program services			
Work activity and training	2,806,294	-	2,806,294
Transportation	533,715	-	533,715
Supporting services			
Management and general	180,654	-	180,654
Fund raising	3,130	-	3,130
Total expenses	<u>3,523,793</u>	<u>-</u>	<u>3,523,793</u>
INCREASE IN NET ASSETS	44,933	(1,035)	43,898
NET ASSETS, BEGINNING OF YEAR	<u>1,603,215</u>	<u>1,919</u>	<u>1,605,134</u>
NET ASSETS, END OF YEAR	<u>\$ 1,648,148</u>	<u>\$ 884</u>	<u>\$ 1,649,032</u>

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Combined Statements of Activities For the Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	2004 Total
REVENUE AND SUPPORT			
Grants	\$ -	\$ 3,000	\$ 3,000
Contributions	9,087	-	9,087
Day training - state contracts	1,638,628	-	1,638,628
Day training - other	26,159	-	26,159
Transportation	271,717	-	271,717
Residential - state contracts	984,744	-	984,744
Residential - other	156,100	-	156,100
Supported employment - state contracts	190,984	-	190,984
Work activity projects	92,523	-	92,523
Investment income	6,006	-	6,006
Other income	49,779	-	49,779
Assets released from restrictions	1,081	(1,081)	-
Total revenue and support	<u>3,426,808</u>	<u>1,919</u>	<u>3,428,727</u>
EXPENSES			
Program services			
Work activity and training	2,615,327	-	2,615,327
Transportation	546,388	-	546,388
Supporting services			
Management and general	195,570	-	195,570
Fund raising	1,485	-	1,485
Total expenses	<u>3,358,770</u>	<u>-</u>	<u>3,358,770</u>
INCREASE IN NET ASSETS	68,038	1,919	69,957
NET ASSETS - BEGINNING OF YEAR	<u>1,535,177</u>	<u>-</u>	<u>1,535,177</u>
NET ASSETS - END OF YEAR	<u>\$ 1,603,215</u>	<u>\$ 1,919</u>	<u>\$ 1,605,134</u>

The notes to the financial statements are an integral part of this statement

WORK ACTIVITY CENTER

Combined Statements of Functional Expenses For the Year Ended June 30, 2005

	2005					
	Program Services			Supporting Services		
	Work Activity	Covenant	Subtotal	Trans- portation	Management & General	Fund Raising
Salaries	\$ 1,691,211	\$ 114,810	\$ 1,806,021	\$ 256,359	\$ 107,233	\$ -
Payroll taxes	186,412	9,458	195,870	-	-	-
Employee benefits	164,183	4,967	169,150	-	-	-
Total salaries and related expenses	2,041,806	129,235	2,171,041	256,359	107,233	-
Professional fees and service contracts	17,760	37,960	55,720	-	11,511	88
Office supplies, printing, and publications	10,462	2,571	13,033	-	9,221	555
Postage	1,743	129	1,872	-	957	-
Telephone	10,604	1,921	12,525	7,248	9,172	-
Occupancy	193,937	5,145	199,082	-	-	-
Supplies, repairs, and maintenance	124,938	40	124,978	30,758	-	429
Insurance	46,056	379	46,435	29,821	-	-
Transportation	-	-	-	196,755	-	-
Program supplies and services	37,162	100	37,262	-	2,815	2,058
Equipment rental	652	-	652	-	1,765	-
Food	59	-	59	-	-	-
Travel, conferences, and meetings	10,764	1,956	12,720	275	2,304	-
Interest	30,621	-	30,621	-	29,367	-
Miscellaneous	8,923	295	9,218	-	3,659	-
Depreciation/Amortization	73,077	17,999	91,076	12,499	2,650	-
Total expenses	\$ 2,608,564	\$ 197,730	\$ 2,806,294	\$ 533,715	\$ 180,654	\$ 3,130
						\$ 3,523,793

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Combined Statements of Functional Expenses For the Year Ended June 30, 2004

2004

	Program Services		Supporting Services		
	Work Activity	Trans- portation	Management & General	Fund Raising	Total
Salaries	\$ 1,763,406	\$ 210,617	\$ 100,790	\$ -	\$ 2,074,813
Payroll taxes	174,720	20,868	9,987	-	205,575
Employee benefits	136,531	16,307	7,803	-	160,641
Total salaries and related expenses	<u>2,074,657</u>	<u>247,792</u>	<u>118,580</u>	<u>-</u>	<u>2,441,029</u>
Professional fees and service contracts	15,291	-	12,855	-	28,146
Office supplies, printing, and publication	9,159	-	8,193	-	17,352
Postage	1,664	-	1,266	-	2,930
Telephone	11,342	6,276	10,316	-	27,934
Occupancy	183,790	-	-	-	183,790
Supplies, repairs, and maintenance	113,102	34,041	-	-	147,143
Insurance	47,400	35,111	-	-	82,511
Transportation	-	213,136	-	-	213,136
Program supplies and services	35,099	-	3,379	1,485	39,963
Equipment rental	809	-	1,760	-	2,569
Food	-	-	-	-	-
Travel, conferences, and meetings	10,295	330	2,686	-	13,311
Interest	31,625	-	31,219	-	62,844
Miscellaneous	8,113	-	2,319	-	9,351
Depreciation/Amortization	72,981	9,702	2,997	-	85,680
Total expenses	<u>\$ 2,615,327</u>	<u>\$ 546,388</u>	<u>\$ 195,570</u>	<u>\$ 1,485</u>	<u>\$ 3,357,689</u>

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Combined Statements of Cash Flows For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 43,898	\$ 69,957
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation/Amortization	106,226	85,680
Net realized and unrealized gains on investments		(2,852)
(Increase) decrease in operating assets		
Accounts receivable	(31,450)	(22,184)
Inventory and prepaid expenses	(11,571)	(6,749)
Prepaid expenses	(8,402)	
Increase in operating liabilities		
Accounts payable and accrued expenses	38,129	12,588
Net cash flows provided by operating activities	<u>136,830</u>	<u>136,440</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Start up assets	(45,000)	-
Purchase of investment	(3,996)	-
Purchase of capital assets	(65,550)	-
Net cash flows used by investing activities	<u>(114,546)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	(43,734)	(40,426)
Net cash flows used by financing activities	<u>(43,734)</u>	<u>(40,426)</u>
NET (DECREASE) INCREASE IN CASH	(21,450)	96,014
BEGINNING CASH	<u>725,193</u>	<u>629,179</u>
ENDING CASH	<u>\$ 703,743</u>	<u>\$ 725,193</u>

Supplemental disclosure of cash flow information:

Cash paid for interest in 2005 and 2004 was \$59,988 and \$62,844, respectively.
No income taxes were paid.

STATEMENTS OF CASH BALANCES

Cash, unrestricted	\$ 702,859	\$ 723,274
Cash, temporarily restricted	884	1,919
	<u>\$ 703,743</u>	<u>\$ 725,193</u>

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Notes to the Combined Financial Statements June 30, 2005 and 2004

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Work Activity Center is a not-for-profit corporation organized and operated in accordance with the provisions of Utah law. The Center provides training, supervised residential living, outside supported employment opportunities, in-house work opportunities, and other activities for handicapped adults. Covenant Employment Services is a limited liability company fully owned and operated by the Work Activity Center, fully formed in accordance with the provisions of Utah law. Covenant provides intensive job training services for adults. Over 90% of the entities' income is from fees for service contracts with the State of Utah Department of Human Services, Division of Services for People with Disabilities.

Combined Financial Statements

On October 1, 2004, Work Activity Center acquired the assets of Covenant Employment Services for \$65,000. The combination was accounted for by the purchase method and resulted in the recording of goodwill in the amount of \$45,000 for future contract values. Goodwill will be amortized over its expected contractual life of 3 years using the straight line method. The accompanying financial statements include operations of Covenant Employment Services for the period October 1, 2004, through June 30, 2005.

Method of Accounting

The accompanying financial statements have been prepared in accordance with the *Standards for Not-For-Profit Organizations Audit and Accounting Guide* issued by the American Institute of Certified Public Accountants. They also comply with the Statement of Financial Accounting Standards (SFAS) No. 117, issued by the Financial Accounting Standards Board (FASB). They are stated on the accrual basis and include all material assets and liabilities of the Center. Functional expenses are allocated to program and supporting services using estimates provided by management.

Cash and Cash Equivalents

For financial statement purposes, the Center considers all certificates of deposit and money market funds purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year end will be immaterial.

Property and Equipment

Purchased assets over \$1,000 are recorded at cost. Donated assets over \$1,000 are recorded at fair market value on the date of contribution. Depreciation and amortization are computed by use of the straight-line method using the estimated useful lives of each class of assets. Expenditures for major renovations and betterments, which extend the useful lives, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for 2005 and 2004 was \$106,225 and \$85,680, respectively.

Inventory

Inventories are accounted for on the first-in, first-out basis, and are valued at lower-of-cost or market. Inventories primarily consist of raw materials used in the training of clients.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Income Taxes

No amounts have been paid or accrued on the financial statements for income taxes. Work Activity Center is exempt from income taxes based on the provisions of the Internal Revenue Code 501 (c) (3). Net income or loss from Covenant Employment services passes through to Work Activity Center as sole owner of the LLC, and is thus exempt from income taxes as well.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Investments

Generally accepted accounting principles require that nonprofit organizations report certain investments at fair value. In accordance with that guidance, the Association accounts for its marketable equity securities at fair value. Information about the fair value of investments and the unrealized gains and losses is discussed in Note 2.

2. INVESTMENTS

Investments consist of the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Common stock - at fair market value	<u>\$ 18,903</u>	<u>\$ 14,907</u>
Dividends and interest	\$ 183	\$ -
Net realized and unrealized gains and losses	<u>3,996</u>	<u>2,852</u>
Total return on investment	<u>\$ 4,179</u>	<u>\$ 2,852</u>

3. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at June 30, 2005 and 2004, is as follows:

<u>Classification</u>	<u>Life</u>	<u>Cost Basis</u>	
		<u>2005</u>	<u>2004</u>
Land and improvements		\$ 262,757	\$ 262,757
Building and improvements	5-30 years	1,806,622	1,798,905
Leasehold improvements	3-5 years	102,168	102,168
Office furniture and equipment	5-6 years	121,054	101,054
Training equipment	5-6 years	56,363	56,363
Transportation equipment	3-6 years	158,574	120,741
		<u>2,507,538</u>	<u>2,441,988</u>
Less accumulated depreciation		<u>(1,078,019)</u>	<u>(986,793)</u>
Total property and equipment		<u>\$ 1,429,519</u>	<u>\$ 1,455,195</u>

4. NOTES PAYABLE

As of June 30, 2005 and 2004, notes payable are as follows:

	<u>2005</u>	<u>2004</u>
Note payable to Bank One due in monthly installments of \$4,192 including interest at 9.05% through December 2014, secured by land and building in West Valley City, Utah	\$ 303,544	\$ 333,292
Note payable to GMAC Mortgage Corp due in monthly installments of \$480 including interest at 6.625% through December 2028, secured by land and building in West Valley City, Utah	51,066	53,363
Note payable to GMAC Mortgage Corp due in monthly installments of \$672 including interest at 6.625% through December 2028, secured by land and building in Salt Lake City, Utah	93,924	95,705
Note payable to Washington Mutual due in monthly installments of \$1,185 including interest at 6.625% through December 2028, secured by land and building in West Valley City, Utah	166,701	169,762
Note payable to Washington Mutual due in monthly installments of \$915 including interest at 7.50% through July 2029, secured by land and building in Salt Lake City, Utah	122,007	123,759
Note payable to Key Bank, N.A. due in monthly installments of \$459 including interest at 5.84% through June 9, 2006, secured by a 2003 vehicle	4,857	9,952
	<u>742,099</u>	<u>785,833</u>
Less current installments	<u>(47,294)</u>	<u>(43,842)</u>
Notes payable, excluding current installments	<u>\$ 694,805</u>	<u>\$ 741,991</u>

Maturities of notes payable in each of the next five years and thereafter are as follows:

2006	\$ 47,294
2007	46,210
2008	50,325
2009	54,809
2010	59,698
Thereafter	483,763
	<u>\$ 742,099</u>

5. WORK ACTIVITY PROJECTS

Handicapped adults at the Center participate in a variety of work activities (contract custodial services, manufacturing of goods for sale, salvage activities, etc.), which result in revenues to the Center. Those individuals are compensated in accordance with Department of Labor requirements.

6. LEASE AND RENTAL COMMITMENTS

Work Activity Center has entered into two operating lease agreements for rental space and transportation equipment. A number of rental payments are made for similar agreements on a month to month basis. These agreements do not contractually bind Work Activity Center for future payments, and are thus not disclosed as future obligation requirements. The lease agreements will expire at different dates and are expected to be renewed before expiration. The lease and rental expense was \$153,665 and \$147,613 for 2005 and 2004, respectively. The following is a schedule of future minimum payments for the leases:

2006	\$ 10,063
2007	7,200
2008	7,200
2009	7,200
2010	7,200
	<u>\$ 38,863</u>

7. PENSION PLANS

Effective July 1, 1996, the Center established a 403 (b) Tax Deferred Annuity Plan for eligible employees twenty-one years of age or older. To be eligible, an employee must work full time and must have worked for the Center for at least one full year. The Center will match employee contributions at 50% up to 10% of the employee's total wages. The Center has also contributed a discretionary \$25.00 per month to all employees who join the plan. Employer contributions are fully vested after six years of service, and increase in 20% increments during the second to fifth year. Center expense for the plan was \$26,788 in 2005 and \$24,443 in 2004.

8. CONCENTRATIONS OF CREDIT RISK

Work Activity Center receives over 90% of its income from fees for service contracts with the State of Utah Department of Human Services, Division of Services for People with Disabilities. If there should be a major cutback in the Department of Human Services, it could materially affect the operations of the Center.

9. UNINSURED CASH BALANCES

Work Activity Center maintains cash balances in various accounts. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 for each account. At June 30, 2005, the Center's uninsured cash balances totaled \$233,150.

10. PURCHASE OF COVENANT EMPLOYMENT SERVICES

On September 20, 2004, Work Activity Center purchased Covenant Job Supportive Services, LLC and reorganized it as Covenant Employment Services, LLC. Activities from date of acquisition through June 30, 2005, are included in these financial statements. The purchase agreement was for \$65,000 plus gross revenue percentage payments accrued and paid quarterly. Consideration paid for Covenant exceeded the value of the assets creating a goodwill value of \$45,000.

11. RESTRICTIONS ON NET ASSETS

Work Activity Center has received various grants from multiple organizations that are restricted in use for specific programs or construction of specific assets. These funds are tracked and reported separately in the financial statements.

12. INTANGIBLE ASSETS

Intangible assets, consisting of contractual agreements for employment services, are amortized using the strait-line method over three years. The recoverability of intangible assets is periodically reviewed to determine whether adjustments are needed to carrying values. There were no adjustments for the year ended June 30, 2005. Amortization expense for the year ended June 30, 2005 was \$15,000. Estimated amortization expense for each of the next two years is \$15,000.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Work Activity Center

We have audited the financial statements of Work Activity Center (a not-for-profit organization as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Work Activity Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Work Activity Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.

Karren, Hendrix, Stagg, Allen & Company
September 1, 2005

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INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors
Work Activity Center

We have audited the financial statements of Work Activity Center, a not-for-profit corporation, for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. As part of our audit, we have audited Work Activity Center's compliance with the requirements governing types of services and their allowed or un-allowed eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah Legal Compliance Audit Guide for the years ended June 30, 2005 and 2004. Work Activity Center received the following major assistance programs from the State of Utah:

Program Support, including housing, education, activities, and transportation provided to handicapped adults. Funds are provided by the Department of Health and Human Services of the State of Utah.

The management of Work Activity Center is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material on compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Work Activity Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Work Activity Center complied, in all material respects, with the requirements governing types of services and their allowed or un-allowed eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions that are applicable to each of its major state assistance programs for the years ended June 30, 2005 and 2004.

Karren, Hendrix, Stagg, Allen & Company
September 1, 2005

CERTIFIED PUBLIC ACCOUNTANTS